



1932



Economic Conditions Governmental Finance United States Securities

New York, August, 1932.

General Business Conditions

THE month of July is not expected as a rule to furnish sensational business news, such as a pronounced revival in all lines of business would be, and in view of the record of the preceding half year nothing very cheering was looked for last month. Indeed some apprehensions were felt that with the beginning of the new crop movement in the face of large stocks and promising yields except in Winter wheat, there might occur a break in grain prices that would disturb prices generally and have the effect of intensifying pessimism. But these apprehensions proved unfounded, and farm products have turned upward in an encouraging manner. This is particularly true of live stock values, with hogs up 50 per cent in the last two months, cattle and lambs showing good returns upon feeding operations and eggs and butter rising substantially. This is very heartening news, for the gains are precisely where they will do the greatest good to the greatest number, increasing the purchasing power of millions of farmers who will promptly start it moving through trade channels to the wage-earners of all the industries.

The gains, moreover, are not confined to farm products, but are general enough to lift the wholesale price indexes. The figures for five of the indexes and an important list of commodities which have advanced are given in the table on the following page.

This brace in commodity prices is decidedly encouraging. The only explanation seems to be that the combination of decreasing stocks, reduced production and low prices has at last induced an increase of buying by dealers. It shows that prices are still responsive to changing relations between supply and demand, and producers are cheered to have a demonstration of this kind. Now, while there is no prospect of scarcity in anything, there is a new-born feeling that at last constructive influences may be getting the upper hand.

The stock market has made a vigorous and sustained advance, and the bond market has improved in all divisions. A heartening revival of new corporate financing has occurred and

for the first time in several months a number of good sized issues have been offered and well-taken; total corporate issues in July approximated \$93,000,000, the largest figure since September, 1931. Considerable foreign buying for investment has come into the New York market, as a result of the better feeling about American conditions, and securities have advanced on the European exchanges likewise.

There is also evidence that merchants are taking heart as well as investors. The showing of the general business indicators such as car loadings, volume of checks cashed, electric power production, output of the chief heavy industries, etc., is not favorable, but along with these indications of dullness come numerous reports of resumed or increased operations by scattered industrial plants. Such reports are not commonly expected in July, and they are correspondingly encouraging. Most of them mention a larger number of small orders, and the deduction may be drawn that the firming of commodity prices, subsidence of fears concerning the gold standard, settlement of reparations at Lausanne, and adjournment of Congress without upsetting the monetary system have disposed business men to buy more willingly.

Conditions in the Industries

Revival has been more conspicuous in the woolen goods industry than in any other. Fall buying has been late but the season is now under way and the pressure for deliveries indicates that buyers overstayed the market. After having operated at a very low rate during May and June, the mills have been able to speed up during July and will raise their schedules further this month. Better reports are given of retail sales of men's clothing, responding to the lowest prices since the war.

Business in silk goods has picked up and cotton goods shipments at last are exceeding output, with the seasonal buying movement still ahead. A better cotton yarn business was done in July, and rayon sales and production also improved slightly. One of the centers from which a good report comes is Danbury,

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where the big makers of men's hats are once more busy.

Steel mill operations dropped to 12 per cent over July 4th, after which they were maintained during the remainder of the month at about 16 per cent. The figure is a distressingly low one, but improvement in steel operations between Independence and Labor Days is seldom on the cards. The automobile industry is now taking less material, having passed over its belated Spring peak. The Ford Company is making headway against its unfilled orders and reducing its schedules somewhat, and the seasonal decline in sales has affected all companies.

The best news of the heavy industries during July has come from building. Construction awards up to the 22nd of the month, according to the F. W. Dodge Corporation reports, showed a contra-seasonal increase of 29 per cent over June, on a daily average basis, though 51 per cent under one year ago. The increase was confined to public works and utilities and other non-residential classifications, home building continuing at a standstill.

Even with the bright spots mentioned, the foregoing is a dull picture, but after the conditions obtaining during the first half year little else was to be expected. In fact, there is reason for encouragement, for the situation is considerably better than the virtually complete shutdown looked for in midsummer by

the more extreme pessimists. There is evidence of accumulated demand for articles of every day use beginning to reach back to the factories, and of some relaxation of the paralysis in business.

Farm Markets and Crops

The sharp rise in livestock prices has already been mentioned as the chief of the factors encouraging to business sentiment in this country. Beginning with drought last year in some of the cattle feeding states, the difficult credit situation, and relatively small crops of the feed grains, feeding was curtailed, and the supply of grain-fed cattle diminished. Up until Spring the deficiency was in part made up by the slaughter of grass fed cattle usually held for finishing. These, however, are light weight, and the Chicago Drovers Journal, commenting on this condition, states that "the total beef tonnage this year has been reduced materially, to a greater extent than the numbers of slaughtered cattle would indicate." Now demand for stockers and feeders has increased, in part seasonally and in part responding to the price advance arising from smaller receipts of finished cattle, and Federal inspected cattle slaughtered in June, when the price advance began, was the smallest with one exception since 1915.

Hogs have been carried on light rations in many sections and were shipped early because of shortage of feed, and some markets report that weights in June were the lightest in many years. Beginning in May receipts dropped rapidly. Except for last year, the hog slaughter in June was the smallest since 1918, and according to the Department of Agriculture the number of young pigs on the farms June 30 was 7 per cent less than one year ago.

For the crops this is a favorable growing season, and with the acreage to be harvested estimated at 1 or 2 per cent above that of last year (though 1 per cent less than in 1929 or 1930) an abundant supply of most farm products is to be expected. The wheat crop is relatively the shortest; it was estimated as of July 1 at 737,000,000 bushels, but may be reduced at the next estimate by drought in the Northwest. Canada will have more wheat to sell and the Argentine and Australian acreages are increased. The willingness of Southern Hemisphere growers to plant more wheat at these prices is a warning to American producers. With foreign currencies at a premium in both countries the inducement to grow wheat to sell abroad is apparent, and they are trimming their costs and increasing their production accordingly.

The Work of Congress

The adjournment of Congress has given opportunity for a final appraisal of its legislation

Upward Trend of Commodity Prices

Wholesale Price Indexes:	1932 Low	1932 July 26	Percent Increase
Bureau of Labor Statistics (1926=100)	63.7	65.0 (July 16)	2.0
Annalist (1913=100)	87.3	92.4 (July 26)	5.8
Fisher's (1926=100)	59.3	60.8 (July 21)	2.5
Journal of Commerce (1927-29=100)	55.7	56.2 (July 23)	.9
National Fertilizer Assn. (1926-28=100)	59.6	61.1 (July 23)	2.5
Commodities (Prices in cents)			
Tin, Straits, N.Y., lb.....	18.33	20.80	13.2
Zinc, slab, E. St. L., lb.....	2.32	2.48	6.9
Petroleum, crude, Mid. (33.-33.9) bbl.	71.00	86.00	21.1
Gasoline, t.w., N. Y., gal.....	9.50	10.50	10.5
Cotton, mid., N.Y., lb.....	5.00	5.80	16.0
Silk, crack (13-15) N.Y., lb.	112.50	132.50	17.8
Print cloth, 35 1/4", 64 x 60, N.Y., yard	2.88	3.06	6.3
Sugar, Cuban raw, N.Y., lb.	.57	1.10	93.0
Sugar, refined, N.Y., lb.....	3.70	4.15	12.2
Cocoa, Accra, N.Y., lb.....	3.87	4.50	16.3
Coffee, Rio 7, N.Y., lb.....	7.00	8.00	14.3
Rubber, smkd. ribs, lb.....	2.56	3.13	22.3
Corn, No. 3 yellow, Chi., bu.	29.00	32.25	11.2
Rye, No. 2 west, N.Y., bu.	43.13	46.38	7.5
Hogs, heavy, Chi., lb.....	3.16*	4.53	44.9
Beef steers, good, Chi., lb.	5.85	8.40	43.6
Lambs, Chi., lb.....	4.40*	6.13	39.3
Butter, creamery, Chi., lb.	16.00*	18.50	15.6
Eggs, fresh, Chi., doz.....	11.50*	13.50	17.4
Lard, prime west, N.Y., lb.	4.10	5.75	40.2
Cottonseed oil, Valley, lb....	2.33	3.25	39.6
Hides, packer, nat. cows, Chi., lb.	3.75	5.50	46.7

* Low of weekly reported prices.

in the very active session which began last December. Notwithstanding the confusion which characterized its proceedings through much of the session, and the alarming proposals which at times seemed to have considerable support, the general verdict is one of qualified approval. The essential task, that of balancing the current budget by increasing taxation, was performed, or at least so nearly accomplished that it may be readily finished at the next session.

The gigantic relief measure must be accepted as in part necessary and on the whole not nearly so bad as it might have been. The policy of distributing nation-wide relief from Washington, through States and municipalities, is almost wholly bad, for it implies greater capacity on the part of the national government to provide emergency relief than exists in the aggregate of its component parts, and the assumption is unfounded. The demand is pressed by representatives whose political lives are dependent upon home popularity and who have the power to vote the funds from the national Treasury, or, rather, to provide the funds by use of the national credit. It is a sound principle that emergency relief should be provided within the States where it is to be disbursed. The proposals that ultimately were defeated, but which were seriously considered, show with more emphasis than the relief act itself the dangers of such legislation. It is noteworthy that much of the pressure comes from persons who approve of unsound methods of using the national credit and hope to compel their adoption.

The Congress deserves credit for the discrimination with which it dealt with proposals to amend the Federal Reserve Act and the banking laws. The Reserve Act was liberalized by authorizing the temporary use of United States Government bonds as the basis of Reserve Bank currency, in the absence of an adequate supply of eligible commercial paper.

More National Bank Notes Authorized

The bills for placing more money in circulation failed of passage, with the exception of the one authorizing national banks for a three year period to increase their note circulation up to the amount of their paid-up capital by depositing as security any government bonds bearing not more than 3½ per cent interest. The only change is by enlarging the list of government bonds available. This is not considered a dangerous measure, nor is it expected to materially increase the volume of currency, since the volume already satisfies all wants. The demand for this kind of legislation arises from the error of thinking that the volume of business ever is limited by a scarcity of currency. The people of this country do compara-

tively little business by hand-to-hand use of money; the real currency of the country is bank deposits, which circulate by means of checks. The entire volume of bank deposits therefore is a potential supply of currency.

While the possible increase of national bank currency, based on the amount of paid-in capital of banks not now covered by note issues, amounts to nearly a billion dollars, it is quite unlikely that any such increase will occur under present conditions. The large city banks already have excess reserves that they cannot profitably employ and hence have no incentive to pay the cost involved in issuing the new currency, including the circulation tax, loss of interest on the 5 per cent redemption fund which has to be kept in Washington, and cost of plates and shipping. To the extent, however, that banks do avail themselves of the new privilege, unless there is an increased demand for currency the effect will simply be to retire a corresponding amount of Federal Reserve notes. Both member bank balances at the Reserve Banks and the Federal Reserve ratio will be increased.

The bill to pay the soldiers' bonus in currency and the Goldsborough bill directing the Federal Reserve Banks to issue credit in quantities sufficient to raise the general price level to what it was in 1926-28, were defeated decisively in the Senate, although both passed the House. Opinion in Europe was that these measures if enacted would carry the United States off the gold basis and the effect was to cause the withdrawal of an amount of gold which would have served as the basis for perhaps as much credit as the friends of these bills expected them to place in circulation. Both bills are now dead, and foreign confidence in our monetary system is reestablished. Exchanges are generally ruling in favor of the United States and our gold stocks are increasing.

Another factor in the restoration of confidence in our monetary system is the conservative declarations of both of the national conventions on the subject of money. After all the inflationist speeches made in Congress, both parties in their platform resolutions declared for sound money, offering nothing to inflationist sentiment. This is evidence of the truth of common reports that the mass of the people, while in distress, are facing the situation with calmness, patience, and good sense, realizing that conditions are wholly abnormal, and confident that the country will work its way out of present difficulties as from similar conditions in the past.

The Banking Situation

The banking situation improved in the latter part of July, as shown by fewer failures and a check to the rise of currency in circulation

which set in with the difficulties around the end of June and the beginning of July.

Following the numerous bank failures in Chicago in June, uneasiness developed among depositors in many of the smaller cities of the Middle West, and bank holidays were established over wide areas to enable a systematic canvass to be made among depositors for waivers of the right to withdraw deposits for a specified time. These holidays lasted as long as two weeks and all business, except a limited sale of necessities, was suspended. The waivers run for three years, but deposits draw interest at 3 per cent, payable semi-annually. This is a very interesting and important development, and may prove to be the turning point of the crisis.

The situation for a time seemed to be very menacing over several States, but the waiver campaigns were generally successful, and there is reason to believe that they have had excellent results beyond saving the banks. They have aroused the people to energetic action in community behalf, and brought them to an understanding that banking is a public service which requires the cooperation of the public, and that if the people in a frenzy of panic should pull down the banks a complete state of business demoralization would result. It was a question whether the people, in the mass, possessed the moral stamina, the mutual confidence and faculty of cooperation in the degree necessary to organize for their own protection. The experience seems to have demonstrated that where capable leadership develops it can be done and that success in doing it puts new courage and confidence into whole communities. They overcome the fear of panic and are inspired to believe that they have the resources within themselves to overcome the depression. The experience has had great educational value, for if they grasp the causes of the depression and reasons why it continues as clearly as they have grasped the essentials of the banking situation, they can clear up the depression also. The paralysis of trade is due to unbalanced wage and price relations, which can be remedied by nobody but the people themselves.

The Trend of Bank Credit

Offsetting seriously the encouraging symptoms described above is the further decline of bank credit as represented by the loans and investments of the weekly reporting member banks. This decline received new impetus early in the month when increased currency demands caused a sharp reduction in member bank cash reserves, and it emphasizes once more the importance of protecting member bank reserves from further losses of this kind if additional deflation is to be avoided. The

Federal Reserve Banks have been aware of the importance of sustaining bank reserves, and by their easy money drive of this Spring endeavored not only to offset gold and currency withdrawals, but also to build up bank reserves to the point of encouraging a larger employment of credit. This campaign checked deflation temporarily, but was not successful in stimulating the desired expansion, chiefly because of a lack of confidence on the part of both lenders and borrowers.

Of late, circumstances have made possible a tapering off of Federal Reserve open market operations. The stoppage of the gold outflow has removed the principal source of drain on bank reserves, and gold is now coming back to this country, approximately \$40,000,000 net excess of imports having been received since the middle of June. Moreover, the strength of the dollar in the foreign exchanges suggests that this movement may go considerably further. At the same time the new facilities for supplying national bank note currency will doubtless result in the retirement of a corresponding amount of Federal Reserve notes, which will also tend to build up member bank reserves at the Reserve Banks. Thus, unless new banking difficulties should cause a sharply increased domestic demand for currency it seems probable that the money market can go along on an even keel without further Federal Reserve assistance.

If this proves to be the case it will be a good thing, for large open market operations by the Reserve Banks are always a subject of controversy. Undoubtedly, an increase in bank reserves due to gold inflow would be more effective psychologically than an increase caused by an expansion of Federal Reserve credit. For this reason, and because it would tend to allay fears regarding our adherence to the gold standard, an inflow of gold into this country would be a constructive development, provided the gold comes from countries which can spare it. It is not in the interest of world recovery that the United States should again absorb most of the new gold production, or draw gold from countries which need it in order to restore their currencies to a gold basis.

Reparations and War Debts

The July issue of this Letter, which was printed while the Lausanne Conference was still laboring over reparations, uttered a note of pessimism as to the probable outcome, saying that there was reason to fear that public opinion in Germany and France, as expressed by political and legislative bodies was "not yet such as to permit agreement between the Governments." The outcome was better than we

were prepared to expect, but nevertheless has justified the apprehension expressed.

There is no reason to doubt that the chief personages in the Conference were sincerely and earnestly desirous of effecting a settlement that would completely dispose of the reparations controversy. Premier MacDonald, of Great Britain, evidently exerted himself to the very limit of his strength and vitality to that end, and had the full support of all the British delegates and the Government at home for the most sweeping settlement possible. In view of the strained political situation in Germany, with another election pending, it seemed too much to expect the German delegation to modify the declaration previously made by Premier Bruening, that Germany could not agree to undertake any more reparation payments. Nevertheless, to save the Conference from failure, it did, with the approval of President Hindenberg and the national cabinet, make a substantial concession, in order to strengthen the French Premier, M. Herriot, in the latter's efforts to win the approval of the French parliament for large concessions on that side.

We mentioned last month that it was MacDonald as Premier of Great Britain and Herriot as Premier of France, holding in previous terms of office, who secured the adoption of the Dawes plan in 1924. It is right that these statesmen shall have credit for their constant and tireless labors to secure international accord and establish a basis for permanent peace. It is impossible to form a proper judgment of the work of the Conference without taking into consideration the political conditions and state of public feeling with which the Conference delegates were obliged to deal in their home countries, and particularly in the case of the German and French delegates.

Terms of Agreement

The German delegation has agreed to two bond issues, aggregating 3,000,000,000 reichsmarks (about \$714,000,000) to bear interest at 5 per cent and, with a 1 per cent amortization charge, other terms and the dates of issue to be determined by the Bank for International Settlements at Basle, which is to manage the public offering, but subject to two stated conditions, to wit, that no issue shall be made within three years and that the bonds shall not be sold at a discount greater than 10 per cent. Thus Germany is allowed three years for recovery before interest begins to accrue, and the provision that the bonds shall bring at least 90 makes it certain that there will be no issue until economic conditions in Germany and financial conditions in the principal money markets are such that the bonds will be marketable on that basis. This is a practical assurance that the bond issues will not be burden-

some to Germany. Evidently the German authorities have done a wise act in approving of this agreement. They have effected an honorable settlement of reparations by negotiation.

The settlement cancels the two sets of annuities provided for in the Young plan, aggregating 109,510,000,000 reichsmarks, or approximately \$26,400,000,000, payable over fifty-nine years. The annuities, of course, are composed mainly of interest, their present value computed on a $5\frac{1}{2}$ per cent basis being something less than \$9,000,000,000. To arrive at the final cost of the settlement, allowance must be made for interest on the 3,000,000,000 reichsmarks of bonds to be issued, but on a present value basis the comparison is approximately \$714,000,000 under the settlement to \$9,000,000,000 under the Young plan.

The settlement, of course, does not release the German Government from its obligations upon the Dawes plan loan, aggregating about \$200,000,000, which was floated in Europe and the United States in 1924, and the proceeds of which were devoted to the establishment of the reorganized Reichsbank on a gold basis, or the Young plan loan of about \$300,000,000, the proceeds of which were used for reparation payments. Nor does it affect the German debt to the United States on account of the expenses of the American occupation, or settlement with Belgium for the redemption of German mark currency left in that country.

The Question of Debt Revision

The Government of the United States always has maintained that the debts owing to it by the allied governments were in no way related to or dependent upon reparation payments, and it is perfectly true that the loans were obtained from the United States, upon unqualified promises to pay, before reparation payments were even discussed. The amounts borrowed by the several countries were reviewed in conference with special representatives of the debtors and reductions or adjustments were made in pursuance of a general purpose to consider "ability to pay." A moderate concession upon interest rates was made to Great Britain and varied but substantial concessions were made to all others.

Before any of these settlements were effected, talk had developed about general cancellation. The British Government, which had loans to Russia, France and Italy aggregating considerably more than she had borrowed from the United States, announced that for the sake of washing the slate she would be willing to surrender her share of German reparations and collect no more from her allies than enough to cover her debt to the United States, but that she could not go further with cancellation than that. Since the United States has been the

only country which had no debt that another country might cancel, the proposal for general cancellation never has awakened much response here. Moreover, the great body of the people of this country never have been able to think of the war as primarily their war. They got into it for what they considered just reasons, and paid out a tidy bit of money in their own expenditures, but never have felt that their obligations went farther.

However, all disagreements arise because the disagreeing parties see things from different standpoints, and it would be well to frankly recognize that reparations and the war debts involve questions upon which it would be hopeless to expect that the people of the different countries ever would fully agree. Some way must be found of settling them without convincing either side that it is in error. Either the parties must be tolerant and friendly enough to compromise them and forget them or they will develop antagonisms and animosities that will be a plague to their relations in the future.

The Gentlemen's Agreement

It was not to be supposed that the creditor nations represented at Lausanne would cancel their reparation claims against Germany, as a contribution to the restoration of economic order and prosperity, without discussing the propriety of similar action by the United States upon its claims against them. They held their claims against Germany to be just, and those claims had been approved by two international commissions. However, they were forced to acknowledge that not only had the collection of reparations become impracticable under existing conditions but that the unsettled dispute had become one of the outstanding obstacles to industrial recovery. Nevertheless, if Germany could not pay them, how were they to pay the United States, and if they were bound to make concessions to Germany for the sake of world welfare why should not the United States make similar concessions to them? The United States was as able to make concessions as they, and had as much to gain by a restoration of world prosperity.

Of course, they discussed the subject in this manner and indulged the hope that the United States would assent to this reasoning. Moreover, there is reason to believe that Premier Herriot stated but the truth when he told Premier MacDonald that he could not hope that the French parliament would ratify the agreement with Germany without obtaining concessions from the United States. This being the situation, the delegates representing the creditor countries at Lausanne had to make a choice between abandoning further attempts to arrive at a settlement with Germany and making a settlement conditioned upon subsequent nego-

tiations with the United States. They chose the latter course, and executed a memorandum agreement among themselves to the effect that their joint agreement with Germany would be ratified in case their respective governments obtained satisfactory settlements with their own creditors, otherwise not, and that in the latter event the legal position of all the interested governments would become what it was before the Hoover moratorium. The German delegation was advised of this agreement after its execution, but had no part in its making.

Irrelevant Protests

The "gentlemen's agreement" has called forth considerable critical comment in this country from persons who oppose any concessions upon the debts running to the United States. It has been denounced as an attempt to coerce this country, but, of course, this country is as free to determine its policy toward the debts as the reparation creditors are to determine their policy upon reparations. They have a clear right to say that they will not make concessions to Germany unless they obtain concessions from the United States. The agreement does not contain a pledge against separate negotiations with the United States.

Furthermore, it is unjust to say that they are unwilling to make concessions to Germany unless they can pass the cost on to the United States, for France has assented to a concession to Germany which, upon the assumption that all obligations are worth their face value, is much larger than her debt to the United States. Her claims upon Germany under the Young plan aggregate over \$14,000,000,000, while her annuities to the United States under the debt settlement aggregate only \$6,840,000,000. The Lausanne terms of settlement would give her 52 per cent of \$714,000,000. Therefore if the United States should cancel the French debt in toto it would wipe out only about one-half the sum that France forgives to Germany. And it is not out of place to add that in one case the forgiveness would be bestowed upon a friend and associate in the war, and in the other case upon an enemy country.

Effects of Reparations and Debts

There is every reason to believe that in this matter of liquidating the war obligations the people of the United States will want to face the realities of the situation and do now what is wise and practical, rather than insist upon the letter of past agreements. The statesmen of all countries ought to know more about the problem of transferring such large sums from country to country than was generally known when the experiment was entered upon.

The policy upon reparations was a mistake from the beginning. Inasmuch as Germany

had to borrow gold enough abroad to set up a new monetary system at the introduction of the Dawes plan, it should have been evident that she could not pay reparations in gold. Inasmuch as none of her creditors were willing to receive increasing imports of goods from Germany to apply on reparations account, it should have been evident that payments could not be made in that manner. In view of the fact that Germany borrowed more abroad during the life of the Dawes plan than the total of her reparation payments, it is now evident that she was only shifting her foreign obligations, not reducing them. When she could no longer borrow abroad her situation became critical. During most of the period in which reparation payments were made she had a debit trade balance, which in the absence of invisible imports would preclude reparation payments. When, in 1931, she was compelled to create an export balance she accomplished it by demoralizing price-cutting to force out her goods and a drastic policy of curtailing imports, both of which policies were costly to other nations. In short, the policies forced upon Germany by the reparation agreements have made that country a demoralizing influence in world finance and trade.

The intergovernmental debts are as abnormal and disturbing as the reparation payments. Essentially they are of the same character. The proceeds were not used for constructive purposes and did not create wealth for their own liquidation, which is a principle of sound finance. Hence the interest and amortization payments have been a factor in the international exchanges which interfered with normal business. The international exchanges must be brought into balance in some way. If foreigners owe us large sums on loan account they must have, directly or indirectly, a corresponding export balance in their favor on merchandise account, and if we will not take foreign goods they will be compelled to reduce their purchases of us, or increase their borrowing of us, or as the last alternative, send us gold. Our tariff policy barred increasing imports of goods, and the net result of reparations, loans and other conditions was an accumulation of gold in this country and France which disturbed the world's equilibrium and has put one-half the world off the gold basis.

Where Do Our Interests Lie?

As a rule the advocates of collection to the last dollar seem to have little conception of the transfer problem. They talk about the payments as though nothing more was involved in them than in payments from one part of the United States to another. The Dawes Committee recognized that there was a trans-

fer problem. Although Germany might collect by taxation the sums required to pay reparations, she could transfer them into foreign currencies only as the country was able to establish credit balances abroad against which drafts might be drawn. The Committee therefore provided that when the funds raised within Germany for reparation payments reached a certain sum and could not be transferred for lack of credit balances abroad, attempts to make reparation payments must cease until such foreign balances were available. That would have been the end of reparations but for Germany's resort to borrowing. The success of accomplishing payments over five years by borrowing developed the theory that the payment of reparations would continually cause such a scarcity of liquid capital in Germany that the sums so paid would rapidly flow back to Germany by means of loans. Hence, when the Young plan was drafted the transfer proviso of the Dawes plan was dropped as probably unnecessary. The stock market boom in the United States and subsequent world depression changed everything. Reparation payments necessarily stopped, not simply because of Germany's inability to raise the sums internally, but because even if she raised them in the German currency she could not transfer them without foreign credits. All of this is just as true of the debts to the United States as of reparations. The position taken by our foreign debtors is that reparations and debt payments upon the present scale are proven to be alike impracticable, because they will continually unsettle the exchanges, interfere with trade and concentrate gold in the creditor countries. Unquestionably this is the tendency.

The Primary Purpose of the Loans

It is common opinion in this country that the war cost us enough in our own expenditures, considering that we neither sought nor gained anything from it, and therefore that we should have payment of the loans to the last dollar. Nevertheless, it is to be considered that we entered the war on our own account, for what were thought to be sufficient reasons, and that from the day the declaration of war was made we were as much interested in the complete defeat of Germany as any of the allies. There are no limited or special partnerships in war. Once in, we had to support the allies for our own protection. They had to meet the German attack during the period of one year after our declaration before we could put an army in the field. We did not lend money to them for their own exclusive use and benefit. We advanced munitions of war and food supplies for their soldiers and home populations while they were holding the

line in France, at first alone, and later by the side of our own soldiers. We received their promissory notes in payment for the products of our farms, mines and factories at war prices.

We settled with them upon what seemed to be a fair basis, having regard for ability to pay and the prevailing prosperity when the settlements were made, but it cannot be denied that "ability to pay" is very different today from what it was then. When the settlements were made it was confidently predicted that the world would forge ahead in wealth production so rapidly that before most of the payments fell due they would seem small in comparison. The outlook now is very different. At the present level of prices, in the present state of business depression and social distress, in the present confusion of the international exchanges and amid present problems of governmental finance everywhere, these debts unquestionably are a disturbing factor in world affairs.

It is pertinent to ask what are these annuities, payable over a period of sixty years, worth to us in present value in comparison with the need for some stroke of policy that will inspire confidence, support credit and open the way for international cooperation to end this depression? There is need for international cooperation upon the subject of money and the exchanges and upon many existing conditions, but there is little chance for such cooperation until reparations and war debts are out of the way. Insistence upon these abnormal payments is a bar to any organized effort to re-establish normal industrial and trade conditions.

The Lausanne Conference, believing that by the agreement upon reparations it had prepared the way for more constructive action, embodied in its agreement a resolution inviting the League of Nations to call an International Economic Conference. Whether such a Conference can be held or accomplish successful results depends largely upon the attitude of the United States. The outlook is greatly improved by the action of Senator Borah, Chairman of the Senate Committee on Foreign Affairs, in declaring that in his opinion the United States should participate in such a Conference and that the Conference "should be authorized to deal with any economic or financial question that would have any bearing upon the financial recovery of the world."

Senator Borah's Position

Senator Borah's radio address with its outright declarations, virtually gives powerful leadership to the movement in this country for a revision of the debts. He has not taken such a position before and in doing so now he justifies the settlements as made, but says:

I feel now, as I have felt from the beginning, that this economic cataclysm has been sustained and aggravated by and through international conditions superimposed by international policies growing out of the Great War. * * *

In considering our problems of domestic concern, we are compelled to consider matters of international concern. No clear and permanent solution of the farm question, the unemployment problem, devastating taxes, unbalanced budgets, can be hoped for, it seems to me, until some or all of these international problems are out of the way. * * *

Not until then will trade revive, commerce flow in its accustomed channels, and the monetary systems of the world, which have been disarranged and broken up, again assume their normal operations. Not until then will commodity prices begin to rise in a permanent way and confidence in business generally be restored.

World trade fell in 1930 \$11,500,000,000; in 1931 it fell \$13,716,000,000. From January, 1929, to January, 1932, world trade decreased 60 per cent. Some nations felt the blow sooner than others. But all are now beginning to feel the deadly effect of this creeping paralysis. * * *

It has been estimated by authorities like Dr. Warren of Cornell and Professor Fisher of Yale and others that this depression has cost the American people in excess of \$150,000,000,000. It has likewise been estimated that the fall of prices on the farm and farm values since the depression has cost the American farmer in excess of \$30,000,000,000.

Opinion of President Strawn

President Strawn, of the Chamber of Commerce of the United States, the federated organization of all Chambers of Commerce of this country, commending the work of the Lausanne Conference, has said:

Its benefits to American business and to the American membership cannot be denied. The markets of Europe normally take more than one-half of American exports and the major portion of our shipments to Europe consist of those raw materials which come from our farms and mines in such abundance.

Until American cotton, wheat, oil and other food-stuffs and raw materials are again absorbed by the population of Germany, Great Britain and other peoples of Europe, the purchasing power of our great agricultural and mining population in the United States will not be renewed. Lausanne is therefore significant not only for our manufacturers whose export markets have diminished so drastically in the past three years, it has similarly a vital importance to every phase of our great productive and distributive machinery.

Since most of the opposition to a revision of the debt settlements manifested in Congress comes from representatives of the very States which produce the bulk of our export commodities, it would seem that the farmers and business men of those States might well be interested in these views expressed by Mr. Strawn.

The World Community

The United States is a member of the world community and bound to contribute reasonably to a common effort to maintain orderly and mutually helpful relations in all international affairs. Moreover, our economic interests require that we do so. This is the greatest producing and trading nation in the world and the good will of all other peoples has a tangible value to us. We have suffered and are suffer-

ing from a wide concurrence of opinion that in our trade policies we have not always shown considerate regard for the principle of fair trade. It may be that we have been no more inconsiderate than others, but the present meeting in Ottawa of representatives of the British Commonwealth of Nations is quite as significant as the action at Lausanne of an inclination to form a united front against the United States. We need not hesitate to claim what fully and justly belongs to us, but we are not so self-complacent as to be indifferent to what the rest of the world thinks of us.

The immortal Declaration of Independence by which the American colonies announced their intention of fighting for their independence begins with the statement that "a decent respect for the opinions of mankind" required that they should declare the causes which impelled them to the action. There is no less obligation upon the United States to show a decent respect for the opinions of mankind in the years of its maturity and power than there was at the outset of its career.

The Bond Market

The rise in bond prices during July has carried forward the improvement that began at the first of June, and is one of the most significant indications of a better feeling that the situation affords. The improvement is not the result of bank purchases, since the investment holdings of the reporting member banks showed a slight decline in the four weeks ended July 20; nor has the buying of bonds (or stocks) been on credit, since the collateral loans of the banks have likewise declined. As an indication of capital being put to use, this is encouraging. It is evidence of the view that recent developments give more substantial hope of business recovery, and of discriminating buying gradually getting the upper hand over indiscriminate liquidation.

The advance has included all groups, and issues of new corporate bonds provided a test of the market with results that are gratifying in view of conditions. To be sure, the offerings were limited to public utility issues of the first grade, including \$30,000,000 for the Consolidated Gas Co. of N. Y., \$10,000,000 for the Brooklyn Union Gas Co., and \$15,000,000 Union Electric Light & Power Co., all 25-year issues bearing a 5 per cent coupon; and \$25,000,000 two year 5s of the Edison Electric Illuminating Co. of Boston.

For United States Government bonds a broader public demand has developed, advancing most of the Treasury issues 2 to 3 points during the month. The issues bearing coupons not above 3½ per cent have been in special demand since the legislation making them eligible to secure national bank note circulation,

but doubtless greater reason for the strength of the market is to be found in other factors such as their tax-exempt features, the continued preference of investors for the highest grade securities, and the ease of the credit position.

The Treasury's August financing took the form of an offering of \$325,000,000 2½ per cent two year notes, and another of equal amount of 3¼ per cent four year notes. Both offerings were heavily oversubscribed.

Recovery in Foreign Issues

The rise in foreign bonds has been in many respects the most notable development in the market. Starting even before Lausanne, and applying especially to German issues, it has included the obligations of all countries, as shown by the following table comparing latest prices (which represents some reaction from the peak) with the 1932 lows reached for the most part in June:

	1932 Low	Close July 26	Points Rise
Australia 5s, 1955.....	46½	73¼	26¾
Austrian 7s, 1943.....	62¼	92	29¾
Belgium 6s, 1955.....	80	96¾	16¾
Berlin 6½s, 1950.....	15½	29¾	14¾
Brazil 6½s, 1926-57.....	14½	21	6½
Cuba 5½s, 1945.....	33	39¾	6¾
Denmark 4½s, 1962.....	47½	69¾	22¾
Finland 6s, 1945.....	41	50	9
German C. Ag. 6s, 1938.....	23	45½	22½
German Gov. 5½s, 1965.....	24¼	45¼	21
German Rep. 7s, 1949.....	41¾	68¼	26¾
Gr. Brit. & Ireland 5½s, 1937.....	90	104¾	14¾
Italy 7s, 1951.....	82¼	92¾	10¾
Japan 5½s, 1965.....	43½	53	9¾
Norway 5½s, 1965.....	64½	75¾	11¾
Rhine Wes. El. Pr. 6s, 1952.....	21	42¾	21¾
Sao Paulo State 7s, 1940.....	46	56¾	10¾
Sweden 5½s, 1954.....	75	90¾	15¾

It is evident that a reconsideration of the value of foreign bonds has been under way in the market, and that a more reasoned view of the situation is prevailing. The breakdown in world trade and finance has made the transfer of service payments by the debtor countries difficult and in some cases impossible, but market judgments influenced by these difficulties, and by panic and misunderstanding, are not finally reliable. The result of Lausanne gives great hope of a gain in co-operation among the nations that will restore order, put idle funds to work at long term, and bolster credit. When political uncertainties are removed capital once more will know no boundaries, as it has never known them in the past.

Manifestly the general improvement in the bond market is a factor of great promise, in the direction of restoring the circulation of funds from hoarding to productive use, and from centers where credit is in surplus supply to others where it is scarce. Of course it will be realized that the outlook for corporate bonds will depend upon earnings and thus upon business prospects, but an advancing bond market brightens those prospects.

Conversion of British War Loan

The long-expected announcement of a re-funding operation for the purpose of reducing the interest burden of the British debt was made to the House of Commons on June 30 by the Chancellor of the Exchequer. This is a stupendous undertaking to convert the 5 per cent war loan, outstanding in the amount of over £2,000,000,000 or around \$7,200,000,000 at the present rate of exchange, into a 3½ per cent obligation having no date of redemption, but callable at par on or after December 1, 1952. A cash bonus of 1 per cent was offered to those assenting before July 31, and those who by September 30 have not given notice of their desire to receive cash for their bonds on December 1 will be deemed to have accepted conversion.

Since the old debt was selling on a 5 per cent basis not long ago, the offer seemed a rather venturesome one, particularly in view of the fact that approximately 10 per cent of the loan is held abroad where the patriotic incentive to convert is lacking. So far as the domestic holders are concerned, the large accumulation of funds in the short money market, and an appeal by the government to the patriotism of the British people to make the

undertaking a success, brought a remarkable response. The effect was a sharp rise in prices of other securities, constituting a general readjustment of interest yields on the London market to a lower basis than has ruled on long term securities since the war.

On July 25 the Treasury announced that more than £1,000,000,000 of the loan had been converted. A saving of £30,000,000 in interest will be realized, which will be cut down to about £23,000,000 by reduced income tax receipts.

The Half Year's Profits

Reports published by industrial corporations for the first half-year reflect the unusually difficult conditions facing business during the period, but show that approximately one-half of the companies reporting thus far were able to operate at a profit. Aggregate net profits, after all charges but before dividends, of 250 companies in various industries were approximately \$43,000,000 for the first six months of 1932 as compared with \$332,000,000 in the corresponding period of 1931. A summary of the figures classified by principal lines of business is given in the accompanying table, which shows the number of reports available in each

INDUSTRIAL CORPORATION PROFITS FOR FIRST HALF YEAR
 Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.
 Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.
 (In Thousands of Dollars)

No.	Industry	Net Profits Half Year		Per Cent Change	Net Worth January 1		Per Cent Change	Annual Rate of Re- turn Per Cent	
		1931	1932		1931	1932		1931	1932
3	Amusements	\$ 9,253	\$ 6,337	-31.5	\$ 99,752	\$ 99,207	-0.5	18.6	12.8
1	Auto-General Motors	85,865	15,019	-82.5	966,802	923,803	-4.4	17.8	3.2
10	Auto-Other	7,183	D-7,033	.....	410,965	392,319	-4.5	3.4	.....
16	Auto Accessories	7,667	D-3,180	.....	197,245	183,287	-7.1	7.8	.....
6	Baking	16,753	13,861	-17.3	289,079	284,290	-1.7	11.6	9.8
6	Building Materials	D-2,080	D-4,961	.....	156,133	135,083	-13.5	.....	.....
13	Chemicals	47,694	25,972	-45.5	1,034,356	971,559	-6.0	9.2	5.3
7	Coal Mining	1,183	D-1,197	.....	102,519	99,479	-3.0	2.3	.....
7	Drugs and Sundries	19,844	4,324	-75.7	226,400	225,074	-0.6	17.5	4.3
10	Electrical Equipment	17,775	603	-96.6	763,943	734,463	-3.9	4.7	0.2
20	Food Products-Misc.	48,176	33,697	-30.1	679,956	651,108	-4.2	14.2	10.4
9	Household Goods	1,129	D-2,644	.....	128,944	115,758	-10.2	1.8	.....
1	Iron and Steel-U. S. Steel	14,156	D-36,671	.....	2,059,089	2,003,693	-2.7	1.4	.....
19	Iron and Steel-Other.....	2,480	D-24,777	.....	1,511,334	1,447,953	-4.2	0.3	.....
8	Machinery	6,029	D-657	.....	189,982	178,275	-6.2	6.3	.....
9	Merchandising	6,095	D-805	.....	349,796	316,833	-9.4	3.5	.....
10	Mining, Non-ferrous	1,327	D-1,873	.....	217,388	211,983	-2.5	1.2	.....
7	Paper Products	2,305	291	-87.4	117,186	116,234	-0.8	3.9	0.5
10	Petroleum	D-4,705	5,576	+	611,175	578,850	-5.3	.....	1.9
4	Railway Equipment	D-70	D-1,694	.....	135,812	125,849	-7.3	.....	.....
3	Realty	1,751	183	-89.5	87,711	80,694	-8.0	4.0	0.5
4	Restaurant Chains	2,495	801	-67.9	57,071	55,861	-2.1	8.7	2.9
3	Rubber Mfg.	2,435	1,648	-32.3	152,246	137,524	-9.7	3.2	2.4
4	Shoes	6,832	3,722	-45.5	176,708	162,022	-8.3	7.7	4.6
8	Textiles	1,705	D-422	.....	84,266	79,928	-5.1	4.0	.....
5	Tobacco (Cigars)	1,984	737	-66.7	57,893	53,577	-7.5	4.8	2.8
47	Miscellaneous	27,449	15,593	-43.2	554,493	527,034	-5.0	9.9	5.9
250	Total	\$332,110	\$42,950	-87.1	\$11,418,244	\$10,891,740	-4.6	5.8	0.8

D-Deficit.

group and their combined net profits, also their net worth at the beginning of each year and the annual rate of profits return thereon.

In the group were 173 companies that reported earnings quarterly, the total for the quarter ended June 30, 1932 amounting to approximately \$16,000,000 which compares with \$28,000,000 in the preceding quarter and \$170,000,000 in the June quarter of 1931.

Although the present level of earnings is much lower than that of last year, the downward trend has been fairly well resisted by a number of companies in such industries as chemicals, baking and miscellaneous food products and shoes. In almost every line of industry a substantial reduction of production costs has been brought about through operating economies and lower cost of raw material purchases, but the effects have been largely offset by the continued contraction in volume and the declining trend, until recently, of commodity prices with the consequent inventory losses. About 47 per cent of the companies in our tabulation reported net deficits for the first half of this year, aggregating \$117,000,000, while last year 27 per cent of the group reported deficits aggregating \$38,000,000, all of which have been deducted in arriving at the totals.

A marked improvement in the oil industry is reflected by the reports of nine companies, including such representative organizations as the Union Oil Company of California, Atlantic Refining Company, Sun Oil Company and Phillips Petroleum Company, whose combined net profits for the first half of 1932 amounted to \$5,576,000 in contrast with a net loss of \$4,705,000 in 1931. Last year's unfavorable showing was due largely to the writing down of inventories, which did not have to be repeated this year, and the change for the better in the oil industry illustrates the similar gain that may be expected in other industries as the decline of commodity prices comes to an end.

Why Trade Is Unbalanced

An address delivered by Mr. Owen D. Young at the commencement exercises of Notre Dame University in June has attracted wide attention for its analysis of the present economic situation. The essence of his analysis is that our troubles are due to an unbalanced condition in the economic system. Referring to the various branches of industry and business which comprise the system, he said:

No upward trend can take place unless all go up. No permanency of any trend can be guaranteed unless we have sound and fair balance between all the units in our economic body.

These are positive statements and evidently true, for they are based upon the fundamental

truth that the economic organization is a vast system of interdependent relationships. We sell to and buy from each other and what we have for sale must pay for what we wish to buy or business cannot go on. This is as true as the multiplication table, but there is a strange failure on the part of many people to comprehend these conditions. Mr. Young has graphically described the involved relationships as follows:

In our endeavor to deal with one we find it necessary to interest ourselves in the others. That is our principal difficulty right now. So when we find our banks in danger because they have invested in railroad bonds and these securities are depreciated because the business of the railroads is adversely affected, we discover all at once that the banking problem has become a railroad problem. When we examine our railroad problem we find that it depends on the rate determining its income and the wages measuring its expense. And so a banking problem becomes one of railroad rates and railroad labor. And when we go into the question of railroad rates we find that industry and agriculture is affected. Their output may be marketable or not, depending quite as much on rates of transportation as on cost of production. So a banking problem becomes one of industry and agriculture. And if the credit of industry and agriculture is weakened by diminished markets due to increased rates, the very loans which the banks have made to them become impaired. And so the cycle is complete.

If these relationships were clearly understood it would be seen that every group in the system is best served by conditions which enable the system as a whole to function freely and normally. If the strivings of groups to improve their own positions at the expense of others disturb the "sound and fair balance," the effect is to slow down the entire organization to the disadvantage of the offenders themselves.

It is a mistake for any group in the system to think that it can hold a position regardless of the effects of its position upon other groups. The experience of two years should have made this clear. It may be possible to hold for a time a set of prices or of wage rates, but if goods cannot be sold at the prices or employment had at the wages, where is the gain? Such a deadlock only prolongs the disorder. Price relations must be such that trade will move.

The Position of the Farmers

Mr. Young recognizes that the disorder began in the loss of purchasing power to the farmers, as a result of which he says, "Industrial production decreased, unemployment began and we started the downward spiral which resulted in the avalanche now in progress." The disparity between the prices of what the farmer sells and what he is accustomed to buy, has increased until, as recently reported by the Department of Agriculture, a given quantity of the farm staples will buy only about one-half as much of the other things as over the five years ended in 1913. This is not to the

advantage of other groups in the industrial system. On the contrary it has been their undoing. It is destructive of trade with that great section of the population and the cities and towns in which agriculture is the principal support of business. According to the 1930 census, 44 per cent of the population of this country live in the country or in villages and towns of less than 2,500 persons. Like conditions as to the unbalanced price relations between rural and urban populations exist the world over.

This disparity is due to the fact that while primary products participated in the general rise of prices in war time, and retained a portion of the gain for some years afterward, they have since declined much more than the products and services of the more highly organized industries.

The farmer, whose labor is largely performed by himself and family is not deterred from production by falling prices, for he can do nothing else with either his land or his labor. He buckles up his belt and works harder, if possible, to make up in quantity what he is losing in price. The urban industries, which must pay out a large proportion of the value of their product as costs, are unable to go far in price reductions without reducing costs, the principal item of which is wages, which do not readily decline.

Wages A Factor

In this manner wages are involved as a factor in the price disparity complained of. While the prices of farm products have had a great decline below even the level of 1913, the prices of all that the farmer buys have been increased by the general rise of wages above the 1913 level, in the manufacturing industries, in transportation, in all urban services and in all public services. Although important wage reductions have occurred since 1929 the calculations of the National Industrial Conference Board, show the average of wages in twenty-five leading manufacturing industries in April, 1932, to have been slightly more than 100 per cent above the level of 1913.

Under such conditions, industry must choose between a policy of wage and price adjustments to maintain trade relations as nearly as may be and a policy of rigid maintenance of wages and prices without regard to the effects upon trade and employment. The question is, which is the best method of riding out a storm?

Undoubtedly the policy of maintaining wages in this instance was originally adopted upon the theory that the depression would soon pass, and that the gains by retaining wage-rates would compensate for the losses from temporary unemployment. But the de-

pression has not passed, the volume of employment has continued to decrease, and the waiting policy does not promise anything better. Manifestly, something serious is wrong with the industrial organization, and the most obvious explanation is the unbalanced relations within it.

The loss of purchasing power by primary producers undoubtedly has been the primary cause of the loss of employment in the urban industries. This loss of employment has caused the urban population to reduce its consumption even of such necessities as come from the farms, and this, with some increase of production resulting from an increase of the farm population, has forced farm products still lower, increasing the disparity. Thus the depression has deepened from year to year. What can be done about it?

It is agreed that a restoration of normal trade relations, either by raising the prices of farm products or lowering the prices of urban products and services (including transportation) would go a long way toward restoring trade, consumption and employment. But the prices of farm products are made to a great extent in world markets, and any attempt to raise such a list of prices by artificial means necessarily encounters much skepticism. A conservative banking policy of supplying credit upon easy terms may be helpful, but any plan for raising domestic prices above foreign prices by monetary or credit inflation involves a danger to wage-earners far more serious than a downward readjustment of wages and living costs which would leave the purchasing power of wages at least as high as in 1929.

The Standard of Living Not Involved

Any suggestion of wage-reduction usually arouses a protest, upon the assumption that an attack is being made on the standard of living, but the wage-reductions of the last two years have seldom touched the standard of living for the workers who have had regular employment, because as a rule they have been covered by lower costs of living. Moreover, it may be agreed that there is no need to reduce the standard of living in this country. The capacity of the industries is ample to maintain the standard of 1928-29 and raise it.

The standard of living, however, is not in wage rates, but in the comforts of life purchased by actual earnings, and with aggregate pay rolls in the manufacturing industries now running fully 50 per cent below those of 1929, the vital question is how to increase this total and thus restore the former standard of living to millions of wage-earners who have lost it.

Any suggestion of wage reductions also is met by the argument that it would reduce the purchasing power of wage-earners and thus

reduce consumption and employment, but this argument does not stand examination. Lower industrial costs and prices would lessen the disparity between prices of farm products and factory goods and so increase the purchasing power of the farming population, while lower wage rates would be offset by a decrease in the costs of living and an increase of employment.

The Relation of Labor to Commodities

The Clayton act, which became a law some years ago, contains a declaration that "labor is not a commodity," the purpose presumably being to lay down the principle that human labor should not be bargained for, as in the case of commodities. Although doubtless well meant, the declaration may be misleading. Certainly the value of labor is inseparably involved in the value of the commodities which it produces. No employer of labor, whether an individual, a corporation or a socialist state, can make a practice of selling commodities for less than is paid to the workers who produce them. There is no employment for labor in production of goods for the market but upon the basis of what the public will pay for them. Moreover, there is more to the wage question than the relations between wage-earner and employer. The most important factor in it is that "sound and fair balance," which Mr. Young has said to be necessary "between all the units of our economic society."

There is no less need or want for goods than in past years, but nobody has buying power except through his own goods or services. The creeping paralysis which has been spreading over industry in the last two years has been the natural result of the disruption of price relations.

Nobody has intended to deadlock industry. The great advance of wages followed rather than led a similar advance of farm products, and so long as the general price level was maintained the flow of trade and the activities of industry were uninterrupted, but when goods and services could no longer be exchanged on a common basis the deadly depression set in. It may be said that the wage-earners in the factories and on the railroads are not responsible for the fall of farm products, but it is not a question of responsibility. The effects of the unbalanced relations are as disastrous in the factories and on the railroads as on the farms. Prosperity is not in mere wages or in mere prices, but in the relationships throughout industry.

If it were practicable for the millions of unemployed to barter the services which they have been accustomed to render direct for wheat, butter, eggs, meat, milk, cotton, wool, etc. no doubt they would be willing to do it upon terms not very different from those upon

which the exchanges have been made in the past, but under the complex organization of modern industry this is impossible, and when the exchanges are made through the medium of money, in the present state of prices, the farmers' buying power is reduced to only one-half or less of what it formerly was.

We repeat that the wage-earners in the factories, upon the railroads and elsewhere have not consciously sought to gain an advantage over the farmers. Apparently they believe that in opposing wage-reductions they are only trying to hold their own, and that their wage-rates have no relationship to the farmer's compensation. This is a mistake, for the purchasing power of a fixed wage increases as the cost of living declines, and increases at the expense of the producer whose products or services are declining. This increase means that the wage-earners (in so far as they are able to hold full-time employment) are able to command an increasing share of all production, while the 42 per cent of the population which is classed by the census as "rural" has at its command a decreasing share of all production.

This is unfair, and not only unfair but unworkable, for the economic law does not permit it. If the wage-earners could pick their gains out of the sky they might enjoy them, but when they come out of other sections of the population the loss of purchasing power by the latter inevitably forces wage-earners out of employment, as witnessed in the last two years. It has upset the "sound, fair balance" in the industrial system. The whole situation affords another demonstration that the basis of sound economics is the moral law. In truth, the economic law and the moral law are one and the same.

The Situation As to Railroad Wages

To give a more specific illustration, the wages of railroad employees may be taken. Prior to February 1st last, hourly wages of railroad employees averaged about 153 per cent above the level of 1913. On February 1st, as the result of negotiations, the brotherhoods consented to a reduction of 10 per cent, upon the condition that it should be automatically restored on February 1, 1933. It is safe to say that the prices of the bulk of the commodities carried upon the railroads now average below the 1913 level. The increased cost of transportation resulting from higher wages and higher prices of supplies (the latter due to higher wages) is burdensome to the bulky primary products which comprise so much of the freight carried, and the loss of purchasing power suffered by the producers of these commodities, together with the indirect effects, have so affected purchasing power in the country that railway traffic has suffered a very serious decline. The railroad employees have

kept up their wage rates, excepting the 10 per cent reduction referred to, but the effects upon their employment and earnings is shown by the following figures: (Source: Interstate Commerce Commission)

Employment and Earnings of Employees on Class I Steam Railroads, in the U. S.

		Number of Employees	Index
1929	April 15	1,649,000.....	100
1930	" "	1,555,000.....	94
1931	" "	1,315,000.....	80
1932	" "	1,072,000.....	65
Total Earnings (in dollars)			
1929	April	233,277,000.....	100
1930	" "	217,705,000.....	93
1931	" "	179,681,000.....	77
1932	" "	126,469,000.....	54

The gross and net revenues of all Class I railroads in the first six months of 1929, 1930, 1931 and 1932 are shown by the figures below:

		(000 omitted)			
		1929	1930	1931	1932*
Gross Revenues		\$3,067,818	\$2,692,255	\$2,187,437	\$1,605,500
Net Revenues		562,729	377,379	238,550	118,000

* First six months 1932. June partly estimated.

In the first four months of 1932 the roads in the aggregate had a net loss of \$76,489,000 after fixed charges. There are 154 Class I railroads, only six of which earned their fixed charges in this period.

The loss of net revenues to the railroad companies has so affected the market value of their bonds that declines in the latter have been an important factor in the numerous bank failures of the last three years and in the general unsettlement of credit. Indeed the entire financial structure of the country has been menaced by the loss of railroad earnings.

These facts are to be taken in connection with the calculation of the Bureau of Labor Statistics that the aggregate payrolls of manufacturing establishments in recent months have been running at less than 50 per cent of the average of corresponding months of 1929.

The Rise of Wages

In the last analysis the right basis of exchange for goods and services is the labor, skill and other human attributes that enter into them, and despite all criticism of the economic system this is the basis which it tends to establish. However, the system occasionally gets out of order, through the eccentricities of the human element in it, and various conditions arising out of the war have caused violent fluctuations in commodity prices, which, of course, have affected the purchasing power of wages.

The great rise of wages during the war and years following was due to extraordinary conditions, and was partly a cause and partly an

effect of depreciation in the value of money. In fact, there was no such rise of "real" wages, i. e., in the purchasing power of wages, as in nominal wages. In other words, the rise was not all net gain to the wage-earners, because the same conditions that carried up wages also carried up the cost of living.

What happened was a complete demonstration of the contention of economists that the real gains of the wage-earning population as a whole come by improvements in the industries which increase their productivity and thus provide a larger supply of the products entering into the standard of living.

This is contrary to the alleged discovery that high wages assure prosperity. It is right, and practically inevitable, that the gains resulting from improvements in the industries shall be broadly distributed to all who participate in the economic system, but wage-increases which also increase costs and are passed on to consumers do not increase the aggregate purchasing power of the population.

The only real gains that the wage-earning population ever has realized from the great rise of wages from 1914 to 1929 have been represented by the excess of wage-earnings over increases in the cost of living. The Bureau of Labor Statistics has worked out a table of living costs, based upon commodities, services, rents, etc., as commonly entering into the expenditures of workingmen's families. The index numbers of this table show that the cost of living was highest in the month of June, 1920, when they were 116.5 per cent above the figures for the month of December, 1913. The Bureau of Labor Statistics also has an index table of wages which runs from 1840 down to recent years. This index number for wages in 1920 is 134 per cent above the base figures for 1913. Thus, wages were up 134 per cent and cost of living 116.5 per cent, leaving a net gain of only 15 per cent.

From the peak of 1920, cost of living declined to 177.9 in 1925, 171.4 in December, 1929, and 145.8 in December, 1931. From the latest date to June, 1932 a further decline of 6.9 per cent occurred.

The great nominal increase of wages from 1914 to 1929 was for the most part illusory and the nominal gain in purchasing power since 1929 also has been largely illusory, because accompanied by great unemployment and an actual decline of wage-payments. The wage-earners have been contending for unrealities at fearful cost to themselves.

It is surprising to learn that despite the great fall of prices received by farmers for products which enter so largely into living costs, the cost of living in June, 1932 was still 35.7 per cent above the 1913 level.

To the extent that the rise of wages was itself responsible for the rise of living costs it has been of no value even to the wage-earners working full time, and could be surrendered by them without loss in exchange for the corresponding reduction in cost of living. In view of the decline in prices of food and other supplies as coming from producers, it is probable that practically the full net excess of present living costs over those of 1913 is due to higher wages, all the way from producers to consumers.

On the other hand, it is evident that the increase in living costs has been a serious burden to the great number of wage-earners having only partial employment, and no doubt has diminished their consumption, and thus reduced employment in the industries. It has borne in like manner upon the persons who are wholly out of employment and living upon savings or by the aid of relatives and it increases the problem of public relief. Moreover, the prices which make the high cost of living, inevitably curtail the purchases of all the people whose incomes for any reason have declined from the former high level.

The Wage Factor

Other influences besides the abnormal rise of wages in 1914-1929 have been factors in the depression, but there is reason to believe that to a great extent they will be naturally corrected if the industrial balance is restored. Wages are the chief factor in the costs of practically all the industries except agriculture. A gradual, normal rise of "real" wages, corresponding to gains in productive efficiency always is desirable, but the rise in the period named was a part of the inflation of the time. As shown above it was largely fictitious, not an increase of compensation in real values, and the attempt to convert it into real values, by holding wages at the high level when all prices were falling, has been a terrible failure. The attempt has had the support of all governmental and political influences, of the leading employing interests and of an overwhelming popular sentiment. Employers have made the most strenuous efforts to reduce costs in other ways than by wage reductions. Profits have almost disappeared as a factor in business calculations, all efforts being concentrated upon maintaining operations and holding the organization together by dividing the work on a subsistence basis.

Nevertheless, the policy has been a failure, because in violation of economic law. It fails to recognize the basic truth set forth in the

first paragraph quoted from Mr. Young's address. It had as much chance of being a success as would an attempt to alter the multiplication table in the interest of labor. It has been partially and fatally successful in maintaining wage rates, but since the products of the industries could not be sold on that basis of costs, millions of workers have been forced out of employment.

It is evident that a general and corresponding readjustment of industrial costs, distribution costs and living costs to a lower level would not lower real wages, but would substantially reduce the serious maladjustments now obstructing trade. Instead of waiting for the balance in industry to be wholly restored by a rise in the prices of primary products, such a readjustment would meet the rising price movement part way, and shorten the time required for complete recovery. It would be an intelligent, cooperative effort to stop the strangulation of business and to restore normal conditions.

Gravity of the Situation

The situation is grave enough to warrant every possible effort to enlist the cooperation of all the people for its control. They need to understand that the remedy must come from themselves, and by their willingness to conform to economic conditions. There is no remedy in the hands of the Government. It is not possible for any plan of public or private relief, either in the way of direct gifts or employment upon public works, to deal with a continuing decline of self-supporting industry and continuing increase of unemployment. There must be production and profits to enable anybody to either pay taxes or subscribe for public loans, and neither direct relief nor employment upon public works can do anything to remove the cause of existing conditions.

One argument offered for public relief works is that they will "prime the pump," or in other words, that the reaction from them will start up private industry. Such expenditures, while they last, of course will aid private industry to some extent, but they will not correct unbalanced trade, and private industry will not continue independently unless it can be made to pay.

If the Government taxes and borrows to the end of its resources, the situation then will be worse than it is now. The only possible relief is by the re-establishment of self-supporting industry, and this can be accomplished only by restoring the exchangeability of products and services.

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